EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC				
17	NIO/ECON		X		
18	D/OGI/DI		X		
19	ES		X		
20	Joyce/file				
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SUSPENSE ____________
Date

Remarks

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Executive Secretary
14 MAY 86
Date

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Executive Registry
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THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 5/13/86 **Number:** 317,112 **Due By:** ------

Subject: Economic Policy Council Minutes
April 30, 1986 Meeting

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☐	☑
State	☐	☑
Treasury	☐	☑
Defense	☐	☐
Justice	☐	☑
Interior	☐	☐
Agriculture	☐	☑
Commerce	☐	☑
Labor	☐	☑
HHS	☐	☐
HUD	☐	☐
Transportation	☐	☑
Energy	☐	☐
Education	☐	☐
Chief of Staff	☐	☑
OMB	☐	☑
CIA	☐	☑
UN	☐	☐
USTR	☐	☐
EPA	☐	☐
GSA	☐	☐
NASA	☐	☐
OPM	☐	☐
SBA	☐	☐
VA	☐	☐

	Action	FYI
CEA	☐	☑
CEQ	☐	☐
OSTP	☐	☐
Poindexter	☐	☑
Svahn	☐	☑
Chew *(For WH Staffing)*	☑	☐
Executive Secretary for:		
DPC	☐	☑
EPC	☐	☑

REMARKS:

Attached for your information are the minutes of the April 30 Economic Policy Council Meeting.

RETURN TO:

☑ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Rick Davis
☐ Ed Stucky

Associate Director
Office of Cabinet Affairs
456-2800 (Room 235, OEOB)

MINUTES
ECONOMIC POLICY COUNCIL

April 30, 1986
1:00 p.m.
Roosevelt Room

Attendees: Messrs. Baker, Meese, Hodel, Lyng, Baldrige, Herrington, Miller, Yeutter, Sprinkel, Darman, Taft, Whitfield, Burnley, Svahn, Kingon, McAllister, Davis, Hoffman, Gibson, Khedouri, McMinn, Mentz, Petroskey, Smart, Stevens, and Stucky, and Ms. King.

1. Domestic Oil Industry

Secretary Baker stated that the President had indicated his support for several actions that would assist the domestic oil industry, including seeking legislation deregulating natural gas and repealing the windfall profit tax. He explained that the purpose of the meeting was to identify initiatives that the Administration might undertake in fulfilling the President's promise to review additional measures to preserve the viability of marginal production wells, or stripper wells, as a national energy asset. He stated that areas under review were Alaskan North Slope Oil, the Strategic Petroleum Reserve (SPR), regulatory changes and tax changes.

Mr. Sprinkel suggested that lifting the ban on the export of North Slope oil would assist the stripper wells in California. He argued that the ban on Alaska North Slope oil is an expensive approach to assisting the maritime industry. The Council discussed the possibility of seeking to lift the export ban. A number of Council members agreed that such an action makes economic sense, but pointed out there is little likelihood that Congress would lift the ban. The Council agreed not to ask Congress to lift the ban on exporting North Slope oil and decided that the forthcoming Commerce Department study on North Slope oil should be neutral with regards to lifting the ban.

Secretary Herrington outlined the options for assisting stripper wells through oil purchases for the SPR. He noted that very little of the oil purchased for the SPR is domestic because there is not much domestic oil available at world prices. Secretary Hodel pointed out that foreign oil has an advantage because tankers are the most efficient form of transportation.

Secretary Herrington stated that assisting the domestic oil industry through SPR purchases would require a subsidy, the government would have to pay more than the world price, and was, in his opinion, undesirable. The Council discussed the logic of purchasing oil at current low prices for the SPR and the constraints on such purchases posed by the capacity of the SPR facilities. The Council agreed that providing subsidies for SPR purchases would be undesirable. Attorney General Meese explained that the Domestic Policy Council would accelerate its review of the SPR fill rate to ensure that if any action were possible it could be included in an announcement regarding relief for the oil industry.

Secretary Baker stated that although the Working Group on Domestic Oil did not propose any specific regulatory reform proposals, he suggested that the Departments of Energy, Interior, and Commerce, and the Environmental Protection Agency review existing regulations to see if there are any changes consistent with the Administrations regulatory objectives that would provide some relief to the stripper wells.

Secretary Baker stated that Senators Nickles and Boren had suggested a number of tax changes designed to assist the oil industry. He explained that the Working Group had reviewed the proposals and was presenting them to the Council.

Mr. Mentz explained that the revenue estimates were made in serial fashion and were based on a low oil price forecast. He noted that the calculations also included an estimate if the proposal were phased out when the price of oil rises to $20 per barrel.

Mr. Mentz briefly reviewed the proposals made by Senators Boren and Nickles:

1. Establishing a marginal production tax credit.

2. Repealing the 50 percent of net income limitation for percentage depletion for oil production from all properties.

   A less costly variant, which would allow the taxpayer to pay no tax on marginal wells, but not provide an additional benefit to otherwise unprofitable production, would be to extend the limitation to 100 percent of net income.

3. Permitting percentage depletion for all owners of marginal properties.

4. Changing the rate of percentage depletion to a graduated rate for marginal production tied to the price of oil.

5. Repealing the "transfer rule" permitting percentage depletion for production from acquired, proven properties.

6. Permitting expensing of geological and geophysical costs.

The Council discussed each of the proposals. Secretary Hodel suggested that repealing the transfer rule would be a helpful step, with relatively little cost. He also noted that repealing the net income limitation for percentage depletion would also be regarded by the oil industry as a positive step.

Some Council members expressed reservations about proposing tax changes that would be costly or distort economic choices. Mr. Miller questioned whether the proposals would benefit the stripper well operators.

Secretary Baker pointed out that the President had promised a review of such possible actions and noted that extending the limitation for percentage depletion and repealing the transfer rule would cost approximately $260 million over five years. Several Council members were favorably disposed towards those changes.

Secretary Baker suggested the Council review these tax measures again when considering the regulatory relief proposals in a few weeks.